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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

----In the Matter of ----

PUBLIC UTILITIES COMMISSION Instituting a Proceeding to Investigate the Issues and Requirements Raised by, and Contained in, Hawaii Revised Statutes 486H, as Amended.	DOCKET NO. 05-0002

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

DATED: Fairfax, Virginia, June 17, 2005

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ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-1 Reference: p. 19.

"In forming ICF's recommendations as to source price in § 2.2.3 of the Report, was any analysis performed by ICF to understand which markets currently make Hawaii-grade gasoline that is ready for import into the Hawaii market?"

a) If so, please explain in as much detail as possible, the analysis that was performed.

Response:

ICF did not perform a rigorous analysis. ICF is aware that gasoline sourced from any location will likely need to be modified to meet Hawaii's specifications. While primary specifications are most similar to other mainland locations, even RVP (vapor pressure) would need to be a special blend for US refiners most of the year.

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SHELL-IR-2 Reference: p. 18.

"Please explain in as much detail as possible, ICF's entire basis for asserting that the Singapore market is a true alternative or market source for gasoline in Hawaii."

a) Does the fact that gasoline produced in Singapore has different quality characteristics than gasoline found in the Hawaii market affect ICF's position as set forth above, in any way?

    1. If so, please explain in as much detail as possible, how it impacts ICF's position on this matter.

Response:

ICF's assertion is that the Far East market is an alternative source of supply for Hawaii. ICF recognizes that the Singapore market itself does not often export to the US, but the region, including Taiwan and Korea, does export to the USWC. ICF also contends that the Singapore market is the most liquid and reliable in the region, and that Singapore itself is an exporter into Australia, China and other areas.

a) The different quality characteristics do not affect ICF's position.. The different quality characteristics were believed to be offsetting factors at current specification limits. In addition, refiners in all export locations have the ability to manufacture alternative grades at different times.

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SHELL-IR-3 Reference: p. 18.

"Based on its position taken on page 18 of the Report, is it ICF's position that a Singapore refiner would produce a special Hawaii-grade fuel for the same price as regular Singapore gasoline?"

a) If so, please explain in as much detail as possible, ICF's entire basis for its position.

Response:

ICF believes a Singapore refiner would produce a special Hawaii gasoline at *costs* near the regular Singapore gasoline cost. This is based on current US specifications for sulfur and assuming conventional 87 Rd octane.

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SHELL-IR-4 Reference: p. 19.

"Please explain in as much detail as possible, ICF's entire basis for claiming that Hawaii could be a reasonably competitive disposition for Caribbean gasoline volume at a price of Gulf Coast spot less 1 cpg?"

Response:

The Caribbean market, including Venezuela, is a primary source of gasoline exports to the US East Coast and, at times, the US West Coast. Because the refiners in the Caribbean target to sell gasoline at a US Gulf Coast waterborne price equivalent price, but do not always achieve that target, ICF estimated a 1 cpg discount. The Caribbean was also viewed to be a more logical choice than the US market, due to the existence of exports and the potential to utilize foreign flag vessels for transportation. Moreover, access to reliable, published freight information was a consideration.

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SHELL-IR-5 Reference: p. 19.

"Does ICF agree with the position that a Caribbean refiner/trader would prefer to move gasoline product into the Gulf market and keep the extra 1 cpg?"

If not, please explain in as much detail as possible, why not.

Response:

ICF's rationale reflected the fact that the Caribbean refiner *cannot* move gasoline into the Gulf market and keep the extra 1 cpg. The price achieved is FOB the refinery; hence the refiner can not normally achieve the targeted USGC equivalent price selling into the US market. The import parity assumes the Caribbean refiner has the alternative to move product into the US East Coast or Hawaii and achieve US Gulf Coast price minus 1 cpg FOB the refinery.

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SHELL-IR-6 Reference: p. 19.

"Given the lengthy shipping timeline from either the Caribbean or Singapore markets to Hawaii, would ICF agree that an importer would experience some degree of price risk during this transportation?"

a) If not, please explain in as much detail as possible, why not.

b) If so, was this risk premium factored into ICF's recommendations as to import parity price?

c) If so, please explain in as much detail as possible, how it was factored in.

d) If not, please explain in as much detail as possible, why it was not factored in.

Response:

a) ICF believes that a wholesaler who imports a cargo of gasoline paying a FOB (on loading) price would assume significant risk in the *current* Hawaii wholesale price structure. This is because there is no clear basis on what drives Hawaii wholesale prices. ICF does not believe there is an acceptable hedging mechanism in the current market.

b) This risk was not factored into ICF's recommendations on Import Parity price. In a gas cap environment, ICF believes the same purchase *could* be hedged to protect the marketer/importer. Since the gas cap formula relies on the USGC and Singapore prices, it would be possible to arrange an OTC (over-the-counter) broker to assume the risk. In this case, the marketer could "unwind" the hedge when the cargo discharges in Hawaii, or ratably over the period of time the cargo is moved to customers. Since the gas caps are based on the same markets as the hedge (USGC and Singapore), the marketer would be protected if gas caps fall after the marketer purchases at a fixed price.

c) N/A

d) ICF believes that there is less of a basis for including any import risk premium with gas caps in place. The costs of implementing the hedge is relatively minor, and is a business management decision that marketers may or may not make. ICF does not believe there is a clear basis for including this risk in the import parity formula.

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SHELL-IR-7 Reference: p. 19.

"ICF's recommendations in § 2.2.3 of the Report proposes utilizing a 50/50 split between Singapore and Caribbean imports when calculating the "basket" price for import parity. Please explain the entire basis for utilizing this 50% ratio."

a) Please explain the entire basis for not utilizing a weighted basket analysis based on factors relating to the likelihood of importing gasoline product from either Singapore or Caribbean under normal circumstances.

Response:

The basis for using a 50/50 ratio is simply that an average (non-weighted) basket was viewed to be in the best interests of Hawaii. Historically, Far East sourced cargoes would land product in Oahu at a cheaper cost than the Caribbean, but in some months they have been equivalent. Over time, as Far East demands grow and the Caribbean has to compete with more imports from Europe, the dynamics may change.

a) The import parity calculation is not intended to exactly mirror the best "deal of the day" for importing product into Hawaii, but rather an overall assessment of the reasonable alternative costs, as ICF believes was intended in the Legislation (ICF notes the Legislation averaged 3 sources in the US mainland)

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SHELL-IR-8 Reference: p. 19.

"Does ICF agree that its recommendations in Section 2 of the Report rely on the concept of import parity as a foundation for bulk transfers, and presumes that import parity equals a representative spot market price plus transportation costs?"

a) If not, please explain in as much detail as possible, why not.

b) If so, please explain in as much detail as possible, ICF's entire basis to support this logic.

c) Did ICF review historical data to demonstrate a similar import parity relationship between Singapore or the Caribbean and the United States West Coast, in coming to its recommendations set forth in § 2 of the Report?

d) If so, please provide copies of all data and documentation so reviewed.

Response:

a) N/A
b) Yes, ICF does agree that its recommendations in Section 2 of the Report rely on the concept of import parity as a foundation for bulk transfers, and presumes that import parity equals a representative spot market price plus transportation costs. The logic is simply that the base markets for the evaluation (US Gulf Coast and Singapore) are the bases for numerous bulk transactions, and hence represent a basis for calculating import parity to Hawaii. ICF added location (freight) adjustment factors to both to arrive at an import parity assessment from each source.
c) No, ICF did not review historical data to demonstrate a similar import parity relationship between Singapore or the Caribbean and the United States West Coast, in coming to its recommendations set forth in § 2 of the Report.

d) N/A

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SHELL-IR-9 Reference: p. 19.

"In forming its recommendations in § 2.2 of the Report, did ICF consider or analyze the impact of the price cap when the proposed import parity price is lower than a local refiner's export opportunity (i.e. exporting gasoline from Hawaii to an alternative site like Portland, Oregon)?"

a) If not, please explain in as much detail as possible why not.

Response:

No, ICF did not consider or analyze the impact of the price cap when the proposed import parity price is lower than a local refiner's export opportunity.

a) ICF does not believe that this is a substantial risk, for several reasons. The ability to export from Hawaii to the mainland would require the positioning of a US flag vessel in Hawaii, and the associated cost of the dead leg to Hawaii to pick up the cargo (both the outright cost and the timing of the movements in the decision process). The refiners' alternative of selling into the Hawaii market at import parity plus a marketing margin would have to be weighed against the absolute price in (eg) Portland, the ability to meet mainland specs (eg RVP), the ability to hedge the shipment into the West Coast market, and the ability to locate a timely vessel, arrange accumulation of volume to fill the ship, and the sustainability of the arb between the markets. While the West Coast market can certainly fuel substantial prices during supply disruptions, it is more likely that the Caribbean or Gulf Coast would respond faster.

   While the import parity calculation provides a mechanism for the Commission to assess reasonable gas caps, this question appears focused on addressing a possible operational issue that may be encountered in a gas cap environment.

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SHELL-IR-10 Reference: p. 19.

"Does ICF agree that assuming its recommendations in the Report are implemented as written, there is a possibility that Hawaii refiners would occasionally realize greater profit margins by exporting Hawaii gasoline rather than selling it in Hawaii?"

a) · If not, please explain in as much detail as possible why not.

b) If so, does the use of an import parity cap increase the supply risk for Hawaii?

c) How would increased gasoline exports from Hawaii impact Hawaii consumers and the Hawaii gasoline market?

Response:

There is always that possibility. ICF notes that since the refiners currently have contracts to sell bulk gasoline to Hawaii marketers tied to other markets outside Hawaii. Therefore, even today (i.e. without gas caps) the possibility exists that refiners could make the decision to export product to increase their margins.

a) N/A

b) ICF would agree marginally it could, but the comments in the paragraph above indicate the possibility exists today as well.

c) It is not really clear. Increased gasoline exports can occur in situations where supply exceeds demand. If demands are reduced, it can impact the balance; if ethanol adds supply without a reduction in production, it can place the supply/demand balance in a long position. If the question refers to an "economic" export, with no other change in the supply or demand to offset it, then it can jeopardize supply to Hawaii consumers.

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ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-11 Reference: pp. 17 – 19.

"Do ICF's recommendations in § 2.2 of the Report include any review of the impact from Ethanol blending legislation that is required to be implemented in Hawaii in 2006?"

a) If not, please explain why not?

Response:

There are no specific recommendations, other than to advise that ethanol will have an impact on the Hawaii market and that it should be reflected when it is implemented.

a) The primary focus of the analysis was to address the Legislated factors and assumptions and determine if they were resulting in a competitive alternative price for Hawaii consumers. The future issues which may affect Hawaii were identified but not analyzed.

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SHELL-IR-12 Reference: pp. 17 – 19.

"Is it ICF's position that the implementation of the Ethanol blending legislation will impact its observations, findings, and recommendations set forth in § 2 of the Report?"

a) If not, please explain why not?

b) If so, please explain in as much detail as possible, what said impact will be.

Response:

Yes, it is ICF's position that the implementation of the Ethanol blending legislation will impact its observations, findings, and recommendations set forth in § 2 of the Report.

a) N/A

b) As noted, ICF has not studied this in detail within the project scope. However, the issues that would need to be addressed within Section 2 of the report include:

   a. The production of gasoline in Hawaii would need to change from conventional at 87 octane (for Unleaded) and 11.5 RVP, to a lower octane and RVP to accommodate the impact of higher octane and RVP of ethanol. This would likely be a higher cost for refiners.

   b. The Legislation (as ICF understands) requires ethanol in 85% of Hawaii's gasoline, possibly requiring multiple levels of finished gasoline production to also produce gasoline at current specs.

   c. The cost of gasoline to marketers would be a mix of ethanol and the sub-octane blend. The cost of ethanol would depend on the source. The original intent (as ICF believes) was that Hawaii would produce adequate ethanol in the zones to provide local supply. Feedback which came to ICF in the sessions on May 18-20 indicate this is lagging badly and that imports may be required to meet the mandate. This implies that the ethanol "cost" determinant of the gasoline price cap will neither be transparent nor stable, and is a concern.

   d. To the degree ethanol must be imported, the freight for the ethanol, while only 15% of the blend, will be difficult to estimate for the gas cap formula.

e. The source price for the sub-octane product in the US Gulf Coast and Singapore will also have to be adjusted from the Platt's quote. Platt's does post an RBOB price in the USGC which could be used as a basis, and Caribbean refiners do supply RBOB into the East Coast market.

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SHELL-IR-13 Reference: pp. 17 – 19.

"For purposes of preparing its recommendations in § 2.2 of the Report, is it ICF's expectation that a base gasoline for ethanol blending will be readily available in the Singapore market?"

a) If not, is it ICF's position that the proposed baseline source price still represents a realistic import parity price?

b) If so, please explain in as much detail as possible ICF's entire basis for so claiming.

Response:

ICF does not believe an ethanol-ready (RBOB) base gasoline will be readily available in Singapore or other Far East markets.

a) ICF notes that, as indicated in IR-1, the source gasoline from any export market will need to be tailored to meet Hawaii or US requirements. In the case of an RBOB product, the changes would be significant enough, in ICF's opinion, to merit an adjustment to the Singapore Platt's price. The reduction in RVP required is a greater concern than the octane, and there may be additional segregation costs to better assure product integrity is maintained.

b) N/A

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SHELL-IR-14 Reference: pp. 17 – 19.

"In preparing its recommendations in § 2.2, did ICF prepare and include an analysis regarding the cost to import Ethanol into Hawaii?"

a) If so, please explain in as much detail as possible, the analysis that was performed.

b) If not, please explain why not.

Response:

No, ICF did not prepare and include an analysis regarding the cost to import Ethanol into Hawaii.

a) The cost of gasoline to marketers would be a mix of ethanol and the sub-octane blend. The cost of ethanol would depend on the source. The original intent (as ICF believes) was that Hawaii would produce adequate ethanol in the zones to provide local supply. Feedback which came to ICF in the sessions on May 18-20 indicate this is lagging badly and that imports may be required to meet the mandate. This implies that the ethanol "cost" determinant of the gasoline price cap will neither be transparent nor stable, and is a concern.

   To the degree ethanol must be imported, the freight for the ethanol, while only 15% of the blend, will be difficult to estimate for the gas cap formula.

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SHELL-IR-15 Reference: pp. 17 – 19.

"Where is the most likely source for imported Ethanol into Hawaii, and how will it be included in ICF's proposed baseline cost as set forth in § 2.2 of the Report?"

Response:

ICF has not analyzed this. As noted in IR-12, there are concerns about the ability to import and the fact that the need to import may change as Hawaii production of ethanol grows.

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SHELL-IR-16 Reference: pp. 17 – 19.

"Does ICF know how the import parity price calculation will be performed in 2006 after the Ethanol blending law is implemented?"

Response:

No, ICF does not know how the import parity price calculation will be performed in 2006 after the Ethanol blending law is implemented. A general approach would be to modify the baseline source prices for USGC RBOB market prices, develop a Singapore "RBOB" source adjustment, and incorporate the market cost for discretionary ethanol. Input from refiners, marketers and blenders would be needed.

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SHELL-IR-17 Reference: p. 76.

"At p. 76 of the Report, ICF notes that "[t]he intent of this report was not to identify the issues or impacts of ethanol blending; however, it is clearly a factor which may need to be considered by the Commission in future Gas Cap management." In view of this position, please explain in as much detail as possible, what additional analyses should be undertaken to fully identify the issues or impacts of ethanol blending."

a) Does ICF believe that it would be reasonable and prudent to perform these analyses prior to the implementation of the gas cap law?

   1. If not, please explain in as much detail as possible why not.

b) Does ICF have a position as to who would be the appropriate person or entity to perform these analyses?

   If so, please explain what the position is.

c) Does ICF have a position as to an estimate as to the amount of time that should be allocated to properly perform and understand these analyses?

d) If so, please explain what the position is.

Response:

ICF explained this in the response to IR-12, and offers the additional comments below:

a) No. ICF believes that any analysis of this would be difficult and to some degree subjective due to the fact that the actual sources and cost of the ethanol are uncertain and may change. Shell and the other marketer refiners are likely in the best position to assess this issue, since they should be in the process of formulating implementation plans.

   Hawaii is in a position where the timing of both mandates (the gas cap law and the ethanol) are creating extraordinary and legitimate concern among marketer and refiners.

b) No, ICF does not have a position on who the best entity is to do this analysis.

c) ICF believes that the analysis could take six months, and even at that the results would still be somewhat subjective and open for argument. The ethanol legislation will be more expensive for Hawaii marketers, and the supply chain more fragile, if imports are required versus state production. Any analysis would really need to understand the issues around growing domestic supply quickly, as well as the import issues.

d) Given the above issues, one approach would be an interim period of monitoring of the gas cap formula results, and publishing wholesale prices in the zones, until the ethanol mandate is implemented and supply of ethanol is stabilized. The transparency of the prices and the publication of the caps would enable all Hawaii stakeholders to become more familiar with the issues and determine the long term need for caps.

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ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-18

"Is it ICF's position that the proposed formula for establishing a baseline price for regular unleaded gasoline as proposed in HRS § 486H-13(c) is not an appropriate formula to be utilized in the implementation of the gas cap law."

a) If not, please explain why not.

b) If so, please explain in as much detail as possible ICF's entire basis for its position.

Response:

As indicated in the Report, ICF believes the use of the 3 mainland sources (NYH, LA and USGC) is fundamentally not a realistic assessment of competitive alternatives.

a) N/A

b) Gasoline is normally imported to the US mainland, not exported, and the use of US sources requires the determination of US Flag freight rates, which are not published and which would be needed to accurately depict a location difference.

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ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

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SHELL-IR-19 Reference: p. 20.

"Does ICF's recommendations for a location adjustment for freight cost to Hawaii as set forth in Section 2.3 of the Report include the cost of freight vessels leaving Hawaii at capacity levels less than full?"

a) If so, please explain in as much detail as possible, how it is included.

b) If not, please explain why not.

Response:

ICF's freight cost is based on Platt's quotes for shipment on Foreign Flag vessels from the Caribbean and Singapore to the US West Coast. The Platt's quotes reflect deals consummated between freight providers and companies needing product moved. They generally do not reflect any specific backhaul, but may reflect the chartering companies' assessment of the ability to secure a backhaul cargo to reposition the vessel. ICF believes that the Platt's quotes to the US West Coast do not generally include a credit for a backhaul.

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SHELL-IR-20 Reference: p. 20.

"In preparing its recommendations in § 2.3 of the Report, please explain in as much detail as possible, what cost adjustment was made to reflect the size of cargos that can be delivered into Hawaii terminals."

Response:

No adjustments were made to reflect the size of cargoes that could be delivered to Hawaii markets.. ICF assumes 30 MT cargoes. Adjustment to a smaller cargo would make the freight rate quote invalid, and there is no published market for smaller vessels. Moreover, 30 MT cargoes can be physically received in Hawaii.

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ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

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SHELL-IR-21 Reference: p. 20.

"In preparing its recommendations in § 2.3 of the Report, was vessel size and available tank storage evaluated to ensure imports were viable under the assumptions set forth in said Section 2.3?"

Response:

ICF believes that tankage at Aloha/USRP, and the Chevron and Tesoro refineries should enable receipt of cargoes.

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SHELL-IR-22 Reference: p. 20.

"In preparing its recommendations in § 2.3 of the Report and the assumptions relied upon thereto, did ICF consider the impact of a reduction in gasoline storage availability once the Ethanol blending legislation is implemented in 2006?"

Response:

The implications of ethanol storage on tankage was considered, but not analyzed. The ethanol requirements to meet the legislation, assuming all from imports, would be about 80-100 MB per month. ICF believes that the physical tankage used to hold the ethanol would be located on Oahu, and also the neighbor islands. ICF does not foresee the feasibility of acquisition or storage of ethanol in large quantities or cargoes. Moreover, even after ethanol is in place, ICF believes it would still make sense to determine gasoline import parity assuming freight on 30 MT vessels.

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ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

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SHELL-IR-23

"Is it ICF's position that the proposed location adjustment factor of $.04 cpg as set forth in HRS § 486H-13(d) is not an appropriate factor to be utilized in the implementation of the gas cap law?"

a. If not, please explain why not.

b. If so, please explain in as much detail as possible ICF's entire basis for its position.

Response:

a) N/A
b) Yes, it is ICF's position that the proposed location adjustment factor of $.04 cpg as set forth in HRS § 486H-13(d) is not an appropriate factor to be utilized in the implementation of the gas cap law. The primary reasons are: 1) that actual freight from the US mainland locations would be much higher than 4 cpg and 2) that the freight rate should vary based on freight market conditions.

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ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

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SHELL-IR-24 Reference: p. 25.

"Other than the issues relating to volatility as set forth in § 2.5 of the Report, what makes the United States West Coast an inappropriate alternative supply point for gasoline into Hawaii?"

Response:

The reasons ICF believes the US West Coast is an inappropriate alternative supply point for gasoline are twofold, in addition to volatility:

a) The West Coast market is a source of imports, although in winter months it can be long product (so the market is not really a consistent export source like the Caribbean or Far East) and
b) The use of US Flag vessels to Hawaii would make accessing published freight quotes less viable.

Also, ICF recognizes that the US West Coast is a likely source for spot cargoes into Hawaii, in particular if needed rapidly. However, ICF does not believe it is a credible, stable, enduring market to use as a basis for the gas caps in Hawaii.

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ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

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SHELL-IR-25 Reference: p. 30.

"In preparing § 3.2 of the Report, did ICF perform any analysis to understand local refining profitability other than the noted comparison between Alaskan North Slope crude oil and the import parity figure in the Report?"

a. If so, please explain in as much detail as possible what analysis was performed.

b. If not, please explain why not.

Response:

a) The analysis also looked at gasoline margins for Duri and Bach Ho (Exhibits 3.4 through 3.6). The analysis was performed by estimating freight costs plus the FOB price of the Crude (all Platt's' data), and comparing to the ICF calculated import parity.

b) N/A

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SHELL-IR-26 Reference: p. 30.

In preparing § 3.2 of the Report, did ICF review any publicly available refining complexity data to understand differences in fixed costs, variable costs (especially energy costs), product yields, or throughput limitations that could impact refining profitability?

a. If so, please explain in as much detail as possible all such data and please provide said data so reviewed.

b. If not, please explain why not.

Response:

a) N/A

b) ICF did not review any publicly available refining complexity data to understand differences in fixed costs, variable costs (especially energy costs), product yields, or throughput limitations that could impact refining profitability. ICF believes the market price dictates refinery profitability. For Hawaii, this would be the import parity assessments. Both refiners sell gasoline bulk at some form of import parity which does not, to ICF knowledge, involve any influence of refinery complexity.

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ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

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SHELL-IR-27 Reference: p. 30.

"In preparing § 3.2 of the Report, did ICF consider whether the relatively small scale of Hawaii gasoline refineries impacts their ability to be profitable?"

a. If not, please explain in as much detail as possible, why not.

Response:

No, ICF did not consider whether the relatively small scale of Hawaii gasoline refineries impacts their ability to be profitable.

a) As noted in IR-26, the market price dictates refinery profitability. The fact that there do not appear to be adjustments for refinery scale or complexity in Hawaii refinery bulk sales formulae indicates that an adjustment in the gas cap formula for these factors is not appropriate.

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ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

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SHELL-IR-28 Reference: p. 30.

"Based upon the positions taken in § 3.2 of the Report, will local refineries continue to have a financial incentive to grow refining capacity to meet local needs?"

a) If the answer is yes, please explain in as much detail as possible the entire basis for so claiming.

b) If not, please explain in as much detail as possible, why not.

Response:

The answer is not clear. If the import formula proposed by ICF provides a price mechanism for gasoline that enables expansion projects for products (gasoline, jet, diesel, etc) to be economically feasible, it may provide a bit more assurance that price assumptions in the economics will be realized. Alternatively, the existence of gasoline caps may cause projects to be questioned since caps may be considered for other products in the future.

ICF's view is that companies will be less likely to put limited investment dollars in markets where the economics are or can become suspect.

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SHELL-IR-29 Reference: p. 30.

"In preparing § 3.2 of the Report, did ICF consider the impact of setting the import parity figure too low, resulting in the local refiner's decision to discontinue bulk and rack sales in favor of company operations?"

a) If so, please explain in as much detail as possible what the effect of this impact would be.

b) If not, please explain in as much detail as possible why this possible scenario was not considered.

Response:

a) N/A

b) ICF did not consider the possible effect of setting import parity prices too low on a refiners' decision to continue or discontinue bulk and rack sales. ICF notes that Exhibits 3.4, 3.5 and 3.6 in the report attempt to support a view that gasoline margins in Hawaii versus typical crudes would be reasonably close to other markets.

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ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-30

"Do any of the recommendations contained in ICF's Report include a recommendation wherein the Hawaii Public Utilities Commission (or other governmental authority) could require a Hawaii refiner to make gasoline supply available to all marketers within the state of Hawaii, regardless of the class of trade?"

Response:

No, none of the recommendations contained in ICF's Report include a recommendation wherein the Hawaii Public Utilities Commission (or other governmental authority) could require a Hawaii refiner to make gasoline supply available to all marketers within the state of Hawaii, regardless of the class of trade.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-31 Reference: 30.

"By way of its recommendations set forth in § 3.2 of the Report, is it ICF's position that bulk sales of gasoline between a refiner and a supplier could also include the zone price adjustment recommended in § 6.0 of the Report?"

Response:

Yes. Bulk sales that take place in a zone other than Oahu should be subject to the zone price adjustment for barging cost. There is a possible issue that the exact transaction point of the Bulk sale in the zones could be 1) ex barge or 2) into the terminal, which may mean that terminal costs should be included as well. This is a point which should be worked in the implementation process.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-32 Reference: p. 35.

"Please explain in as much detail as possible ICF's entire basis for selecting the eight comparative geographic markets utilized in § 3.4.1 of the Report, including but not limited to identifying all of the criteria utilized by ICF in forming ICF's position that said markets constitute an appropriate comparison markets for Hawaii."

Response:

ICF was seeking markets with: 1) conventional gasoline and 2) visibility to the supply chain and cost into the location to assess margins as accurately as possible. Consequently, locations which are sourced from the USGC, Chicago, etc plus pipeline tariffs and/or marine costs were reasonable to include. ICF wanted a minimum of 5 regions spread out geographically. Some alternative locations were simply at different points along pipelines (e.g. Birmingham vs. Atlanta) and ICF wanted more geographical spread. ICF concurs there are other alternative locations, but does not believe that the quality of the results would substantially improve.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-33 Reference: p. 35.

As to the market comparison group utilized in § 3.4.1 of the Report, what is ICF's position as to why a wider group was not utilized?

Response:

As noted in IR-32, ICF recognizes alternative locations could be included, but did not believe it would materially affect the outcome.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-34 Reference: p. 36.

"In preparing § 3.4.1 of the Report, why was the sole supply cost basis utilized for Phoenix, LA Pipeline?"

Response:

ICF did not consider other regions for Phoenix supply. In ICF's view, the discretionary volume into Phoenix would come from the LA market. The movement of surplus conventional product into Phoenix triggers the marketing margins in the region.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-35 Reference: p. 36.

"Does ICF have any basis for disputing that an appropriate supply cost basis for Phoenix should also include gasoline from sources, including but not limited to, gasoline from the Gulf Coast pipeline?"

a) If so, please explain in as much detail as possible, the entire basis for same.

b) Does ICF have any basis for disputing that utilizing the Gulf Coast pipeline as a supply cost basis would result in a lower supply cost basis for Phoenix?

c) If so, please explain in as much detail as possible, the entire basis for so claiming?

Response:

a) Yes. As noted in IR-34, ICF believes marketing margins are driven by the discretionary supply from LA. Also, ICF is only aware of one pipeline (Kinder Morgan) moving product west from El Paso and New Mexico refineries into the Arizona market. The KM pipeline does not provide Gulf Coast product into Arizona. The calculation of a marketing margin for a terminal sourced from a market with direct refinery supply (and not a liquid market like the USGC or NYH) is not transparent because the alternative disposition is typically refinery margin based.

b) ICF does not know whether utilizing the Gulf Coast pipeline as a supply cost basis would result in a lower supply cost basis for Phoenix.

c) N/A

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-36 Reference: p. 36.

"In preparing § 3.4.1 of the Report, why was the sole supply cost basis utilized for Seattle, Barge?"

Response:

An evaluation on a barge-market basis was ICF's view of the best approach to evaluate Seattle markets.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-37 Reference: p. 36.

"Does ICF have any basis for disputing that an appropriate supply cost basis for Seattle should also include gasoline from other sources, including but not limited to, the Portland Spot Market?"

a) If so, please explain in as much detail as possible, the entire basis for same.

b) Does ICF have any basis for disputing that utilizing supply cost bases other than Seattle Barge would result in a lower supply cost basis for Seattle?

c) If so, please explain in as much detail as possible, the entire basis for so claiming.

Response:

ICF has no basis for disputing that an appropriate supply cost basis for Seattle should also include gasoline from other sources, including but not limited to, the Portland Spot Market.
this.

a) N/A

b) ICF has no basis for disputing whether or not this will result in a lower supply cost basis for Seattle.

c) ICF recognizes that Shell's assessment using the Portland spot market may be a better reflection of actual margins in Seattle than ICF's assumption (acknowledging Shell's comments about the limited barge activity in Seattle). ICF has not, however, done an analysis to re-estimate Seattle margins.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-38 Reference: p. 36.

"In preparing Exhibit 3.8 of the Report, please explain in as much detail as possible, how the "average" rack margin was calculated."

a) In calculating the "average" rack margin, were both branded and unbranded posting included?

b) If not, please explain in as much detail as possible, why not.

Response:

ICF believes this question refers to Exhibit 3.9, and will answer accordingly. The margins were calculated as shown in spreadsheet "C3.9 Rack Margin Comparisons 3-16-05".

a) The Rack price used was the Platt's quote, based on average of all rack prices, included branded and unbranded.
b) N/A

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-39 Reference: p. 36.

In preparing Exhibit 3.8 of the Report, were the rack margins calculated on net rack or gross rack prices (adjusted for cash discounts)?

If the rack margins were calculated on a gross rack basis, please explain in as much detail as possible ICF's entire basis for explaining why it is appropriate to make this calculation without taking into consideration cash discounts.

Response:

Platt's data as well as OPIS reflects gross rack prices. EIA data (while based on statewide numbers) also does not reflect discounts. ICF concurs that discounts do take place, although not for all marketers and not consistently. Estimating the level of discounting would be problematic to do with credibility.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-40 Reference: p. 36.

"In preparing Exhibit 3.8 of the Report, please explain in as much detail as possible, how the data was filtered for off-rack discounts."

Response:

The data in Exhibit 3.8 of the Report was not filtered for off-rack discounts.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-41 Reference: p. 39.

"In preparing § 3.4.1 of the Report, please explain in as much detail as possible, ICF's entire basis for utilizing a marketing margin factor for Hawaii wholesale rack sales that is double the prior year Mainland annual average, and that is to be recalculated on an annual basis."

Response:

The doubling was shown in the report in Exhibits 3.10 (Detroit) for Rack and 3.15 for DTW. The data behind this is located in spreadsheet "C3.9 Rack Margin Comparison 3-16-05". You will note that the actual "peak" month vs the average for the 6 year period is 2.5, not 2.0. ICF used 2.0 because the most recent 3 years (2002 to 2004) were a ratio of 2.3, and that the West Coast cities (Phoenix and Seattle) had much greater peak month ratios due to the tight West Coast market.

One difference between Hawaii and the mainland is that the Hawaii market is near balanced on gasoline supply and demand, barring a refinery outage. Rising gasoline demands are beginning to strain that situation, but in general Hawaii is not as exposed as the West Coast or Midwest in particular on supply shortages and volatility. Moreover, marketers, especially jobbers on the mainland may have multiple supply sources in a given market, and hence may have flexibility to "cherry-pick" the best price supplier each day. The price caps recommended by ICF are double the mainland averages. This does give Hawaii marketers the option (flexibility) to operate at higher than average mainland margins if deemed necessary for supply or margin reasons. ICF believes marketers on the mainland have a greater need for the flexibility for *supply* reasons than Hawaii, but felt that Hawaii marketers could be exposed without the same level of price flexibility.

ICF recommends updating the marketing margin on an annual basis to minimize the influence of any localized mainland problem (disruptions, seasonality, etc) on Hawaii.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-42 Reference: p. 39.

"In § 3.4.1 of the Report, given that the cap on the marketing margin factor for Hawaii wholesale rack sales are to be double the mainland annual margin recalculated on an annual basis, but the wholesale gasoline price cap will be administered on a weekly basis, did ICF perform any analysis as to the volatility of weekly marketing margins so as to understand whether the appropriate degree of flexibility will exist under ICF's proposed methodology?"

a) If so, please explain in as much detail as possible, what type of analysis was performed.

b) If not, please explain in as much detail as possible why such analysis was not performed.

Response:

a) ICF did not perform any analysis as to the volatility of weekly marketing margins.

b) Marketing margins can vary every day; hence looking at weekly margins would be more volatile and likely would show higher peaks than double the annual average margin. However for the purposes of the gas cap formula and the establishment of an average margin-based cap, the use of weekly margin peaks as a cap to establish a flexibility range would, in ICF's view, be too extreme.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-43 Reference: p. 39.

Based upon the positions taken in § 3.4.1 of the Report, is ICF implying that it is appropriate for rack supply costs should be similar in Hawaii and Mainland locations?

a) If so, please explain in as much detail as possible, ICF's entire basis for its position.

Response:

Yes, ICF does imply that it is appropriate for *base* rack supply costs to be similar in Hawaii and Mainland locations.

a) ICF notes that the costs to move product to the rack (eg zone adjustments for barge and terminalling) include costs experienced (on average) in Hawaii. For zones other than Oahu, this provides an adjustment to rack and supply costs to reflect a higher cost.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-44 Reference: pp. 39 – 40.

"Please explain in as much detail as possible the entire basis for ICF's recommendation in § 3.4.1 of the Report that the Unbranded Rack price cap be established at 3 cpg above the Branded price cap."

a) Is it ICF's position that the 3 cpg difference between Unbranded and Branded rack prices is an appropriate amount?

b) If so, please explain as much detail as possible ICF's entire basis for so claiming.

c) Under ICF's formula proposed herein, under what scenario would any gasoline supplier offer a Branded product over Unbranded product?

Response:

a) Yes, it is ICF's position that the 3 cpg difference between Unbranded and Branded rack prices is an appropriate amount.

b) Exhibit 3.13 shows a comparison of Platt's branded and unbranded annual average prices for 2002 thru 2004 from OPIS. The data shows an average price fairly close to each other (2002 impacted by a very high Seattle spread). The intent of the analysis was to identify the range of prices when unbranded is priced over branded to manage supply. ICF believes it is very important to provide a pricing range for unbranded which protects and preserves the marketer's ability to make sure branded customers get some value when supply is tight.

   Based on several prices over 2 cpg (unbranded peaks over Branded) ICF elected to use 3 cpg as an adjustment.

   ICF's position is that this differential is appropriate for markets in which unbranded marketers would have alternative supply choices. It may not be appropriate to assume that unbranded rack customers in Hawaii have the same options as mainland unbranded marketers.

c) This question assumes that the supplier can market all volume at the cap, and into the unbranded market. The formula proposed provides a ceiling on unbranded sales above branded to allow the supplier to increase price to the unbranded channel when needed to manage supply constraints.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-45 Reference: p. 40.

"Please explain in as much detail as possible, the entire basis for selecting the five Mainland markets utilized in § 3.4.2 of the Report for ascertaining historical DTW prices for conventional gasoline, including but not limited to listing all of the criteria utilized by ICF in making this determination."

a) In selecting the five mainland markets utilized in § 3.4.2 of the Report, does ICF agree that DTW price comparisons would have been more meaningful to the present analysis if the comparison markets were selected where significant dealer operations existed?

b) In selecting the five mainland markets utilized in § 3.4.2 of the Report, why were states with divorcement laws similar to Hawaii excluded (i.e. Delaware, Virginia, Maryland, Connecticut)?

Response:

ICF desired to use locations similar to the rack locations to evaluate DTW margins for consistency. ICF utilized EIA data to evaluate DTW margins because access to DTW prices was not available from Platt's (or OPIS). Lundberg was both expensive and far too detailed for analytical needs. EIA data, however, is published only on a state level basis, not specific locations (as the rack data is published by price services).

EIA state data for Texas was not considered because PADD 3 markets indicated only about 3% of sales are on a DTW basis. Arizona (Phoenix) and Washington (Seattle) were excluded because the data showed high margin volatility and strained credibility (one was very high; one very low). Refer to spreadsheet "C3.15 DTW Margin Comparisons 3-22-05 v2".

a) ICF concurs in general with this statement. There are some areas with significant dealer operations exist which may not provide clear margin information due to (eg) boutique fuels in the mix, or lack of clear source and transportation cost assumptions.

b) Delaware and Connecticut market reformulated gasoline, not conventional. ICF agrees that Maryland and/or Virginia would have been appropriate alternatives to examine.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-46 Reference: p. 43.

"In § 3.4.2 of the Report, given that ICF recommends that the DTW marketing margin price cap be set at double the average DTW margin of the 5 comparative states and recalculated on an annual basis, but the wholesale gasoline price cap is to be administered on a weekly basis, did ICF perform any analysis as to whether the double multiple provides the necessary flexibility to address market conditions?"

a) If so, please explain in as much detail as possible, what type of analysis was performed.

b) If not, please explain in as much detail as possible why such analysis was not performed.

Response:

ICF did not perform any analysis of the benefits or concerns about determining the flexibility based on weekly versus monthly peak margins.

a) N/A

b) As in the response to IR-41, ICF believes that for the Hawaii market that the doubling of the average DTW margin provides sufficient price flexibility.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-47 Reference: p. 40.

In preparing § 3.4.2 of the Report, ICF acknowledges that it utilized EIA data instead of regional DTW pricing data because said "data is very expensive and may not offer significant value compared to the EIA data." Please explain in as much detail as possible ICF's entire justification for utilizing EIA data instead of other available regional DTW pricing data.

a) Please discuss in as much detail as possible, what the potential impact is on the quality of ICF's analysis is in § 3.4.2 by utilizing EIA data instead of other available regional DTW pricing data.

b) In preparing § 3.4.2 of the Report, and specifically in formulating ICF's recommendations as to DTW margins, please explain in as much detail as possible why Arizona was excluded due to "data uncertainty" and what ICF means by use of the term "data uncertainty" as it relates to the exclusion of Arizona from the DTW margin analysis.

Response:

ICF's use of EIA data involves utilizing state average data from the EIA (as reported to the EIA by Marketers & Refiners). The alternative to the EIA data would have been regional (i.e. localized to areas consistent with the Rack locations) as provided by a Price Service such as Lundberg (neither OPIS nor Platt's tracks DTW data). The Lundberg data provides specific information on company by company pricing on a daily basis in the region and zones within a region. It is expensive due to the granularity of the data and the potential value it provides marketers. The expense of the data would be compounded by the added time to assess the average data in a region, and the estimates of volumes needed to get a reasonable average. ICF elected to use EIA data because it appeared to be the best value in the analysis.

a) The EIA data is a good statewide average, but may lose margin quality since the distribution costs (vs. Rack distribution cost in a specific locale) would need to be estimated; The regional DTW pricing may provide good DTW prices in a local, but the average DTW price would be subject to estimates on volumes to determine an average. ICF thinks the EIA margins are reasonable within plus or minus a 0.5-1.0 cpg.
b) As noted in IR-45, Arizona (Phoenix) and Washington (Seattle) were excluded because the data showed high margin volatility and strained credibility (one was very high; one very low). Refer to spreadsheet "C.315 DTW Margin Comparisons 3-22-05 v2".

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-48 Reference: p. 40.

"Please explain in as much detail as possible, ICF's entire basis for its recommendation to add an additional 1 cpg to the estimated supply cost used for Rack margin calculations to approximate cost to position gasoline throughout a state for DTW sales, as set forth in § 3.4.2 of the Report."

Response:

ICF's review of ICF's database indicates that ICF in fact did ***not*** adjust the transportation rates for these 5 states. ICF considered doing so, but in evaluating the additional pipeline or barge costs, ICF determined that 1) the deliveries into Georgia are primarily into Atlanta, and spurs even as far as Bainbridge only added 10 cents per barrel (0.25 cpg) to the delivery. 2) Michigan was not adjusted because Detroit was geographically further from the source market (Chicago) than other areas, and the same applied to Albany, NY. Tampa's cost was also assumed similar to Jacksonville and Miami (which also receive imported volumes) in Florida. There may be a basis for increasing slightly the cost for Maine, but with Portland being the primary destination terminal and population center, the adjustment was deemed small. Obviously the ability to clearly delineate the statewide terminal supply cost requires much more time and detail than ICF had, but ICF does believe the data used was reasonably accurate.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-49

"Is it ICF's position that the proposed marketing margin factor of $.18 cpg as set forth in HRS § 486H-13(e) is not an appropriate factor to be utilized in the implementation of the gas cap law?"

a) If not, please explain why not.

b) If so, please explain in as much detail as possible ICF's entire basis for its position.

Response:

ICF does not believe that the marketing margin factor as proposed in 486h-13(e) is appropriate.

a) The reasons are that: 1) it assumes only one class of trade exists for wholesale sales, and does not clearly identify which class of trade applies, and 2) it assumes that marketing margins are fixed, where in fact, as shown in the mainland results in Exhibits 3.9 and 3.14, marketing margins can and do vary over time.

b) N/A

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-50 Reference: p. 49.

"In preparing § 4.0 of the Report, please explain in as much detail as possible, how specific adjustments were made to account for quality differences in octane levels between source gasoline product and Hawaii gasoline."

Response:

The octane differences between source locations and Hawaii were made on a market basis, not a refiner cost basis. For example, the spread between USGC 93 and USGC 87 octane as posted by Platt's was adjusted to 92 octane by multiplying the spread by 5/6 (0.8333). The adjustment to convert Singapore midgrade from 95 RON (roughly 90 Rd octane) to 89 Rd octane in Hawaii was made by taking 2/3 of the Singapore 95 RON vs. 92 RON spread.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-51 Reference: p. 49.

"In preparing § 4.0 of the Report, please explain in as much detail as possible, how specified adjustments were made to account for quality differences in sulfur levels between source gasoline product and Hawaii gasoline."

Response:

No adjustments were made specifically to account for different sulfur levels in source and Hawaii gasoline product. As in Section 2, ICF's rationale was that the higher RVP in Hawaii gasoline would offset any lower sulfur content adjustments. The cost of adjusting to current sulfur levels may be minimal for sweet crude refiners, or refiners with adequate tankage and blending flexibility.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-52 Reference: p. 51.

"In preparing § 4.0 of the Report, did ICF evaluate whether or not Hawaii refiners will be financially inclined to produce premium unleaded gasoline at the proposed differential levels, or will they have an incentive to export premium unleaded gasoline and/or blending components to the West Coast?"

a) If so, please explain in as much detail as possible, what the results of this evaluation were.

b) If not, please explain why this evaluation was not performed.

Response:

ICF did not specifically evaluate whether or not Hawaii refiners will be financially inclined to produce premium unleaded gasoline at the proposed differential levels, or if they will have an incentive to export premium unleaded gasoline and/or blending components to the West Coast. ICF does note from the data provided the following:

a) The analysis was to simply evaluate the bulk spread for premium in the USGC and Singapore, and to examine the typical bulk spread of 5-7 cpg (Exhibit 4.12) as provided March 24, 2005 in company responses to the Commission's request for information. On this basis, it would appear that there would be a profit margin available to preclude an incentive to export.

b) N/A

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-53 Reference: p. 51.

In preparing § 4.0 of the Report, ICF recommends differentials that are set based on yearly averages, notwithstanding the fact that the spot market trades daily. In light of this, did ICF consider the possibility that local refiners may elect to take advantage of this difference and export premium barrels when the opportunity arises?

a) If so, please explain in as much detail as possible how this consideration is factored into ICF's recommendations as set forth in § 4.0 of the Report.

b) If not, please explain why ICF this consideration was not part of ICF's analysis in preparing § 4.0 of the Report.

Response:

No, ICF did not consider the possibility that local refiners may elect to take advantage of this difference and export premium barrels when the opportunity arises.

a) N/A

b) The premiums for midgrade and premium gasoline are based on USGC and Singapore premiums. While it is always possible that a premium upgrade may occur on the West Coast to possibly attract some Hawaii volume, ICF believes it would be related to an overall gasoline crisis in California which would attract volume from many locations. Freight and other operational hurdles would be a challenge to overcome.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-54 Reference: p. 51.

In preparing § 4.0 of the Report, did ICF analyze the impact of the Hawaii's Ethanol requirement on base specification for premium gasoline?

a) If so, please explain in as much detail as possible what the impact will be.

b) If not, please explain why this analysis was not performed.

Response:

No, ICF did not analyze the impact of the Hawaii's Ethanol requirement on base specification for premium gasoline.

a) N/A

b) It was not part of the immediate need to evaluate and validate the Legislative factors.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-55 Reference: p. 51.

"Once Hawaii's Ethanol blending legislation is implemented in 2006, does ICF believe that Singapore and Gulf Coast differentials will still be the most appropriate metric to be utilized in formulating the grade adjustments set forth in Section 4.0 of the Report?"

a) If so, please explain in as much detail as possible, the entire basis for this position.

b) If not, please explain in as much detail as possible, why not.

Response:

Perhaps.

a) The ambivalence is simply due to the fact that the relative spread between RBOB premium and midgrade and RBOB unleaded has not been studied. This also includes an analysis of the difference in base octane level of the sub-octane grades. ICF believes it is most likely that an adjustment may be necessary, but the adjustment would be derived from an RBOB grade difference, and ethanol cost increment to blend up to 92, 89 and 87 Rd octane levels. The ethanol cost would depend on whether import or "home-grown" ethanol was available.

b) N/A

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-56 Reference: p. 53.

"In § 4.3.1 of the Report, ICF states that it "does not believe there is value in further differentiating the Rack sales based on Branded and Unbranded classes of trade. The Premium (and Midgrade) spreads versus Regular Unleaded are not believed to vary significantly between these classes of trade." Please explain in as much detail as possible, the entire basis for this belief, including but not limited to an explanation of how ICF came to this conclusion."

Response:

The comments were based on ICF's experience level. There was also a limited amount of price data from Hawaii marketers which appeared to corroborate this conclusion (although ICF did not receive these data until after a view was determined).

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-57 Reference: p. 53.

"In preparing § 4.3 of the Report, did ICF perform any analysis regarding the different qualities of premium unleaded products offered in the marketplace?"

a) If so, please explain in as much detail as possible the analysis that was performed.

b) If not, please explain why this analysis was not performed.

Response:

No, ICF did not perform any analysis regarding the different qualities of premium unleaded products offered in the marketplace.

a) N/A

b) ICF assumes this is directed at different octane levels or additive packages. ICF attempted to adjust for octane, which affects market value. Additives are a cost matter, and ICF had no basis for assessing either the cost or the potential value of one package vs. another on price.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-58

"Is it ICF's position that the proposed mid-grade adjustment factor of $.05 cpg as set forth in HRS § 486H-13(f) is not an appropriate factor to be utilized in the implementation of the gas cap law."

a) If not, please explain why not.

b) If so, please explain in as much detail as possible ICF's entire basis for its position.

Response:

It is not (quite) appropriate

a) ICF believes the factor for midgrade should be adjusted to reflect different classes of trade (DTW, Rack, etc). The factors identified in Exhibit 4.11 define ICF's analysis result and recommendation. ICF believes market sensitive numbers should be used.

b) N/A

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-59

"Is it ICF's position that the proposed premium adjustment factor of $.09 cpg as set forth in HRS § 486H-13(g) is not an appropriate factor to be utilized in the implementation of the gas cap law?"

a) If not, please explain why not.

b) If so, please explain in as much detail as possible ICF's entire basis for its position.

Response:

It is not (quite) appropriate

a) ICF believes the factor for premium should be adjusted to reflect different classes of trade (DTW, Rack, etc). The factors identified in Exhibit 4.11 define ICF's analysis result and recommendation. ICF believes market sensitive numbers should be used.

b) N/A

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-60 Reference: p. 62.

"In preparing § 5.0 of the Report, please explain in as much detail as possible, how company cost data was calculated to arrive at the recommended zone adjustment figures."

Response:

The company cost data was tabulated in a spreadsheet. One spreadsheet each was used for barge, terminalling, and trucking costs. The spreadsheets (which are Redacted due to the confidential information therein), were organized by columns for each zone, and by company in rows. See Redacted Spreadsheet "Shell- D6.1 Company Response Data 04-07".

For barging costs, the companies involved in barging reported average barging costs as requested. These numbers were directly averaged.

For terminalling costs, the average terminal costs (full costs) were identified on a cpg throughput basis.

For trucking costs, in some cases ICF was provided average trucking costs for each zone by some companies, and "high" and "low" costs by for each zone. In this case, ICF used the formula "80% of the low and 20% of the high" to estimate average zone cost. The logic was based on a rationale that much of the low cost is near the terminal areas, and that there are some locations well out from the low cost area.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-61 Reference: p. 62.

"In formulating the recommended zone adjustments in § 5.0 of the Report, was the cost data submitted by the Company simply averaged, was said data weighted by market share and measured for appropriateness?"

a) If said data was simply averaged, please explain in as much detail as possible why further analysis as described above, was not performed.

b) If ICF weighted said data by market share and measured said data for appropriateness, please explain in as much detail as possible, the analysis that was performed.

Response:

The cost data submitted by the Company were simply averaged.

a) Use of a weighted average by supplier would have created need for even more data and analysis from the Parties', in ICF's view.

b) N/A

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-62 Reference: 59.

"In preparing § 5.0 of the Report, did ICF perform any research and/or analysis regarding the types of different operating circumstances surrounding the various supply contracts between refiners and suppliers within the state of Hawaii?"

a) If so, please explain in as much detail as possible the type of research and/or analysis that was performed.

b) If not, please explain why this type of research and/or analysis was not performed.

Response:

No, ICF did not perform any research and/or analysis regarding the types of different operating circumstances surrounding the various supply contracts between refiners and suppliers within the state of Hawaii.

a) N/A

b) ICF had access to only some import parity formulas and some barge contract terms.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-63 Reference: 59.

"In preparing § 5.0 of the Report, given that ICF proposes that bulk sales between a refiner and a supplier also could include the recommended zone price adjustment (as set forth on p. 43 of the Report), how would ICF propose a supplier recover the higher cost of doing business on an outer island if the refiner is also allowed to include the entire zone adjustment differential in the bulk price?"

Response:

The refiner should not be allowed to recover the entire zone adjustment differential, only that adjustment required to position the product to the transaction point (eg Barge discharge, terminal discharge, etc). To accommodate the different possible transaction points for Bulk sales, the table shown in Exhibit 7.1 should be modified to provide the additional transaction points.

Alternatively, due to these comments, and the potential for multiple bulk transactions, there may be value in eliminating the cap on the Bulk class of trade.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-64 Reference: 59.

"Would ICF agree that it would be a more appropriate result if zone differences were flexible enough to recognize the different operating circumstances surrounding the various supply contracts between refiners and suppliers?"

a) If not, please explain in as much detail as possible, why not.

Response:

Yes, ICF does agree that it would be a more appropriate result if zone differences were flexible enough to recognize the different operating circumstances surrounding the various supply contracts between refiners and suppliers, per the response to IR-63.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-65 Reference: p. 65.

" Has ICF studied the time and cost impact to suppliers and marketers that will be required to comply with its proposed recommendations as set forth in § 7.0 of the Report?"

a) If so, please explain in as much detail as possible, the results of that information.

b) Does ICF agree that there will be a cost impact to suppliers and marketers regarding the requirements of complying with the recommendations as set forth in § 7.0 of the Report?

c) If not, please explain in as much detail as possible why not.

Response:

No, ICF has not studied the time and cost impact to suppliers and marketers that will be required to comply with its proposed recommendations as set forth in § 7.0 of the Report.

a) N/A

b) Yes ICF does agree that there will be cost impacts to marketers and suppliers. The system ICF proposed would provide an Access database to each party which may be able to link with your accounting systems to minimize manual costs. However, this will not really be studied until the Commission decides direction. In general, the implementation of regulations of course involves an ongoing cost to the regulated parties to assure and monitor compliance.

c) N/A

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-66 Reference: p. 65.

"Please confirm that ICF's recommendations as set forth in § 7.0 of the Report does not include any mechanism for suppliers and marketers to recoup any of the costs that will be incurred for complying with these recommendations."

Response:

Yes, the Report does not include any mechanism for suppliers and marketers to recoup any of the costs that will be incurred for complying with these recommendations.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-67 Reference: p. 65.

Does ICF agree that it would be appropriate for suppliers and marketers to be entitled to recoup the costs that will be incurred to comply with the recommendations set forth in § 7.0 of the Report?

a) If ICF does not agree, please explain in as much detail as possible its position.

Response:

As noted in IR-65, in general the costs of regulations are not recovered. There is a logic that the cost of environmental, safety and other regulations can be a longer term value to a company by possibly eliminating less competitive suppliers, improving workforce reliability and attendance, etc. With the gas cap legislation, it is not clear to ICF that those type benefits may ultimately accrue, hence there may be a rationale to include an assessment of cost in the cap formula.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-68 Reference: p. 65.

"Did ICF consider alternative methods to validate industry compliance?"

a) If yes, what were the other alternatives and why were they dismissed in favor of the final recommendation?

b) If not, please explain in as much detail as possible, why not?

Response:

Yes, ICF did consider alternative methods to validate industry compliance.

a) ICF considered the option of having the buyer report problems, if the buyer felt they were being charged above the published cap. This method could work, but puts the responsibility on the buyer who may feel uncomfortable reporting the violation since they would be creating problems for their primary supply provider. ICF believes the data collection system provides the most thorough method to assure compliance.

b) N/A

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-69 Reference: p. 68.

"Does the recommended database tool in § 7.3 of the Report contain any systems to verify the accurateness of the information that is being utilized to calculate the gas caps?"

a) If so, please explain in as much detail as possible what they are.

b) If there are no such systems, please explain in as much detail as possible, why said systems are not in place.

Response:

No, ICF did not specifically recommend the database tool contain any systems to verify the accurateness of the information that is being utilized to calculate the gas caps, however, this would be a key criteria of the assessment process.

a) N/A

b) This would be worked as part of the implementation process. There would ideally be a daily test for data variations of the key prices and freight assumptions and alerting mechanisms.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-70 Reference: p. 68.

"Does ICF acknowledge that in using external sources for pricing information such as Platt's etc. there are situations where there are errors that arise from in the data that is published this information?"

a) If not, please explain in as much detail as possible the entire basis for this position.

b) If so, will the database tool recommended by ICF have any default provision or system in place to promptly address these errors?

    a. If so, please explain in as much detail as possible, how said default provision or system will work.

Response:

Yes, ICF recognized that in using external sources for pricing information such as Platt's etc. there are situations where there are errors that arise from in the data that is published this information.

a) N/A

b) The default procedure would have to be triggered from a tool such as described in IR-69 b. Once identified, Platt's would be contacted to assess and correct.

   ICF notes that Platt's has indicated to us (email John Kingston/Tom O'Connor) that the four key prices used in the weekly calculation have a lower than normal error incidence. Moreover, since the USGC 87 and Singapore 92 price quotes are used in so many contracts, any error is normally identified in about a day and corrected. This in fact may catch most of the limited errors before the weekly calculations are made.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-71 **Reference: p. 68.**

"Do any of ICF's recommendations as set forth in § 7.0 of the Report take into consideration potential liability issues that may arise from the posting of incorrect information?"

a) If so, explain in as much detail as possible, what these considerations are.

b) If not, please explain in as much detail as possible why not.

Response:

None of ICF's recommendations as set forth in § 7.0 of the Report take into consideration potential liability issues that may arise from the posting of incorrect information.

a) N/A

b) This issue needs to be worked, however, ICF notes that the published prices are used for numerous transactions, and this situation, while somewhat different, should be manageable.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-72 Reference: p. 68.

"In preparing its recommend database tool and reporting concept as set forth in § 7.0 of the Report, has ICF considered the impact of whether there are any anti-trust considerations that are impacted by way of the proposed format of having suppliers and marketers submit confidential pricing information into a single database?"

a) If so, please explain in as much detail as possible what these considerations are.

b) If not, is it ICF's position that there are no anti-trust considerations that are impacted by way of the proposed format?

Response:

Yes, ICF has considered the impact of whether there are any anti-trust considerations that are impacted by way of the proposed format of having suppliers and marketers submit confidential pricing information into a single database.

a) The system would be structured so that the company data would never be commingled, only compared to the gas cap formula. This is an understandable area of concern, but the concern would exist to some degree with any compliance checking process and subsequent analysis (including manual auditing).

b) N/A

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-73 Reference: p. 68. I

"In preparing its recommend database tool and reporting concept as set forth in § 7.0 of the Report, is ICF aware of whether the PUC, or anyone on behalf of the PUC, has considered the impact of whether there are any anti-trust considerations that are impacted by way of the proposed format of having suppliers and marketers submit confidential pricing information into a single database?"

If so, please explain in as much detail as possible what these considerations are.

Response:

ICF is aware that the PUC is concerned about anti-trust issues, since that was the primary driver for multiple independent meetings with ICF in May.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-74 Reference: p. 68.

"Does ICF believe that once the Hawaii Ethanol legislation is implemented in 2006, it would be appropriate for the recommended formula and process for computing gas caps, and for monitoring same, as set forth in § 7.0 of the Report, be adjusted to reflect the impact of the Ethanol legislation?"

a) If not, please explain in as much detail as possible why not.

b) If so, please explain in as much detail as possible what those adjustments should be, and how said adjustments should be implemented.

Response:

Yes, ICF does believe that once the Hawaii Ethanol legislation is implemented in 2006, it would be appropriate for the recommended formula and process for computing gas caps, and for monitoring same, as set forth in § 7.0 of the Report, be adjusted to reflect the impact of the Ethanol legislation.

a) N/A

b) ICF commented on this in IR's 11 through 17.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-75 Reference: p. 76.

At p. 76 of the Report, ICF states that: "While the Legislature's desire to achieve competitive, market based gasoline price caps is much better than simply establishing a hard price cap, the Gas Cap legislation is still a disruption to the free market system. The mechanism proposed herein by the Legislature, and with ICF's recommendations, attempts to minimize those disruptions. There will however, be situations where the gasoline price rises in the Caribbean, or Singapore markets due to vents local to those markets which could impact Hawaii consumers due to the formula. Or, outages at Hawaii refineries may locally affect Hawaii supply and inventory, but the as Cap would not change because Hawaii's problem likely won't impact the Caribbean, USGC or Singapore markets. More critically, if imports are needed to make up the lost volume, the inability to raise prices beyond the gas cap may blunt economic replenishment, and jeopardize supply." In view of this position, does ICF acknowledge that a potential impact of the implementation of the gas cap law as recommended by way of the Report, is that there could be a decrease in the available supply of gasoline within the state of Hawaii?

a) If not, please explain in as much detail as possible why not.

b) If so, please explain in as much detail as possible, how the implementation of the gas cap law as recommended by way of the Report could create a decrease in the available supply of gasoline within the state of Hawaii.

Response:

Yes, ICF does acknowledge that a potential impact of the implementation of the gas cap law as recommended by way of the Report, is that there could be a decrease in the available supply of gasoline within the state of Hawaii.

a) N/A

b) The potential disruptions which can and do occur in refineries from time to time will usually trigger replenishment from other areas. This occurs because prices tend to rise after an outage and attract supply from other markets. Without a mechanism to raise wholesale prices after a significant outage, it may be more difficult to arrange replenishment at economic terms with a gas cap in place.

   There is also potential for exports of gasoline, however ICF believes that due to freight, timing, and economics, the risk of exports may not be substantial (barring a radical reduction in Hawaii demand).

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-76 Reference: p. 74.

"Does ICF acknowledge that the implementation of the gas cap law as recommended in the Report could lead to an increased risk of a Hawaii refiner closing its Hawaii business?"

a) As noted in the Report at p. 74, "[a] decision to close one of the refineries due to a low return on investment would significantly increase Hawaii's dependence on imported products, including gasoline, diesel, residuals, and jet fuel, directionally raise prices and require additional inventory for contingency supply." In view of this position, does ICF agree that under the scenario defined herein, such a situation could result in the decrease in the available supply of gasoline in the state of Hawaii?

   1. If not, please explain in as much detail as possible, why not.

b) Did ICF perform any analysis on the issue of the possibility of having to replace a refiner who closes its Hawaii operations because of the implementation of the gas cap law as recommended in the Report?

Response:

Yes, ICF acknowledges that the implementation of the gas cap law as recommended in the Report could lead to an increased risk of a Hawaii refiner closing its Hawaii business, however ICF views the risk to marketers' profitability as greater.

a) Yes, ICF does agree that under the scenario defined herein, such a situation could result in the decrease in the available supply of gasoline in the state of Hawaii.

b) No, ICF did not perform any analysis on the issue of the possibility of having to replace a refiner who closes its Hawaii operations because of the implementation of the gas cap law as recommended in the Report.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-77 Reference: p. 74.

"Did ICF perform any analysis or research to study what the effect of the implementation of the gas cap law as recommended in the Report would have on the potential reduction of the available supply of gasoline within the state of Hawaii?"

a) If so, please explain in as much detail as possible, the type of analysis and research that was performed and the results of said analysis and research.

b) If not, please explain in as much detail as possible why said research and analysis was not performed.

   1. Does ICF believe that it would be reasonable and prudent to perform research and analysis to study what the effect to the implementation of the gas cap law as recommended in the Report, would have on the potential reduction of the available supply of gasoline within the state of Hawaii?

      i. If not, please explain in as much detail as possible, why not.

      ii. If so, would it be reasonable and prudent to perform said research and analysis prior to the implementation of the gas cap law?

c) If not, please explain in as much detail as possible why not.

      i. Does ICF have a position as to who would be the appropriate person or entity to perform such research and analysis?

d) If so, please explain what this position is.

      i. Does ICF have a position as to what a reasonable amount of time that should be allocated to perform this research and analysis?

e) If so, please explain what this position is.

Response:

Yes, ICF did analyze the possible impact in several areas.

a) One area ICF examined was the relative gasoline margins that refiners would have for ANS, Bach Ho and Duri crudes based on an ICF import parity price. These results (Exhibits 3.4, 3.5 and 3.6) simply indicate that the import parity price is reasonable vs. gasoline margins over the same or similar crudes in other markets.

b) ICF did not perform material calculations on other impacts, but have noted in the report areas which are at risk for Hawaii. These include Refinery operation, outage management, closure of remote service stations and marketer impacts, all of which have some difficult-to-measure potential.

   1. ICF believes that this issue could be studied for an extended period, in particular with upcoming ethanol legislation and lower US sulfur specifications. It is difficult for ICF to see how a calculative-based study will be credible due to the number of uncertainties in place. ICF believes a more effective approach would be to determine the most effective way to implement gas caps, or gas price monitoring, and ethanol streaming in a logical and tactical manner to minimize potential disruptions and costs to consumers and Industry.

c) ICF believes it is more reasonable and prudent to adopt a collaborative approach between Industry, the PUC, Legislature, and the Consumer Advocate to meet the intent of the Legislature in an optimal manner given the existing uncertainties.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-78 Reference: p. 75.

"At p. 75 of the Report, ICF states: "[t]here may be some unique situations (similar to Hana on Maui) in which small jobbers or distributors have few outlets which are in a high-cost-to-deliver regions, and the PUC may wish to consider some exceptions or further adjustments. Overall, the Gas Caps are structured so that sales at or approaching a DTW cap should provide a margin to cover a purchase at wholesale rack prices plus delivery cost, and profit. As with the Refining sector, wholesale marketing suppliers will likely have to closely examine business costs and margins in a market that is regulated. Since the total number of suppliers in Hawaii is small to begin with, the attrition of any marketers due to the Gas Cap impact needs to be quickly understood to minimize supply issues to consumers." In view of this position, does ICF acknowledge that the implementation of the gas cap law as recommended in the Report could lead to an increased risk of gasoline marketers and/or suppliers deciding to cease operations in remote areas on the neighbor islands?"

a. If not, please explain in as much detail as possible why not.

b. Did ICF perform any analysis or research to study what the effect of the implementation of the gas cap law as recommended in the Report would have on the potential for marketers and/or suppliers to cease operations in remote areas on the neighbor islands?

(1) If so, please explain in as much detail as possible, the type of analysis and research that was performed and the results of said analysis and research.

(2) If not, please explain in as much detail as possible why this analysis or research was not completed.

(3) Does ICF believe that it would be reasonable and prudent to perform research and analysis to study what the effect to the implementation of the gas cap law as recommended in the Report, would have on the potential for marketers and/or suppliers to cease operations in rural areas within the state of Hawaii?

(a) If not, please explain in as much detail as possible, why not.

(b) If so, would it be reasonable and prudent to perform said research and analysis prior to the implementation of the gas cap law?

(1) If not, please explain in as much detail as possible why not.

(c) Does ICF have a position as to who would be the appropriate person or entity to perform such research and analysis?

(1) If so, please explain what this position is.

(d) Does ICF have a position as to what a reasonable amount of time that should be allocated to perform this research and analysis?

(1) If so, please explain what this position is.

c. Did ICF perform any analysis on the issue of the possibility of having to replace marketers or suppliers who choose to cease operations in remote rural areas on the neighbor island because of the implementation of the gas cap law as recommended in the Report?

(1) If so, please explain in as much detail as possible, what this analysis is.

Response:

Yes, ICF does acknowledge that the implementation of the gas cap law as recommended in the Report could lead to an increased risk of gasoline marketers and/or suppliers deciding to cease operations in remote areas on the neighbor islands.

a) N/A
b) Yes, ICF did limited analysis based on the data we received. The comments below address sub-questions in the IR pertinent to ICF's analysis and IR questions:
    a. The data provided by Parties' in March to the PUC indicated concern about the impact of the gas cap law on their business in some situations with remote stations to supply. ICF noted in the Report that marketers in remote locations could be impacted. No quantitative analysis was done.
    b. ICF believes it is reasonable and prudent to consider the impact of this issue prior to implementation. ICF believes the need for a "study" is overstating the analytical need. The impact, in ICF's opinion, will occur due to the nature of the Legislation (i.e. the defined zones and assigned factors, in particular the trucking cost)

c. Primary input to quantify the impact should come from the regional suppliers. ICF would expect this information would be part of formal comments to the Commission by these Parties in the next several weeks.
d. There should be sufficient information provided tas input for the PUC to validate the risk to small marketers.

c) ICF did not analyze the issue of replacing marketers or suppliers who choose to cease operations.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-79

"What conditions lead ICF to believe the existing legislation as currently set forth in HRS Chapter 486H could be improved though the changes recommended in its final Report?"

Response:

ICF believes that the existing Legislation should be modified to reflect more logical export sources for product, more accurate and market based freight costs, and for more than one class of trade. The Report recommends market based factors for Premium and Midgrade, as well as providing Marketing margin caps that mirror the overall US Marketing business environment. Moreover, the Legislation did not provide for zone adjustments, which ICF includes in the recommendation.

The process proposed by ICF provides a compliance method that minimizes resource needs for the PUC, and provides secure and automated identification of compliance issues.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-80

"Does ICF have a position on the issue of whether HRS Chapter 486H as currently drafted, fully appropriately addresses the Hawaii state legislature's intent to manage the wholesale price of gasoline within the state of Hawaii?"

a) If so, please explain in as much detail as possible, what ICF's position is, and what the entire basis for this position is.

Response:

ICF does not believe HRS Chapter 486H as currently drafted, fully appropriately addresses the Hawaii state legislature's intent to manage the wholesale price of gasoline within the state of Hawaii. Reasons are cited in the report, and noted under IR-79.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-81

"Does ICF have a position on the issue of whether HRS Chapter 486H as currently drafted, adequately addresses the potential impact to the available supply of gasoline within the state of Hawaii?"

a) If so, please explain in as much detail as possible, what ICF's position is, and what the entire basis for this position is.

Response:

a) ICF does not believe HRS Chapter 486H as currently drafted, adequately addresses the potential impact to the available supply of gasoline within the state of Hawaii. ICF's proposed changes provide a better mechanism (by using a better baseline price source and more accurate freight), but ICF's report does not assure that a refiner on Hawaii will be profitable.

   Potential factors which could impact supply include the inability to increase price in the event of a supply disruption (limiting economics to replace lost supply), possibility of exports, influence of the gas caps on refining investment for capacity, etc.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-82

"Does ICF have a position on the issue whether HRS Chapter 486H as currently drafted, properly addresses the impact of ethanol blending?"

a) If so, please explain in as much detail as possible, what ICF's position is, and what the entire basis for this position is.

Response:

a) ICF does not believe HRS Chapter 486H as currently drafted, properly addresses the impact of ethanol blending. As noted in ICF's responses to IR-11 through 17, there are numerous areas that will need to be resolved related to ethanol. Many of these issues are not related to the gas cap legislation (eg ethanol supply sources, etc) but they are issues which need to be clarified to effectively address gas cap implications and changes.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-83

"Does ICF have a position on the issue of whether HRS Chapter 486H as currently drafted appropriately takes into consideration the different classes of trade utilized by various suppliers and the impact the cap could have on the structure of the competitive gasoline market in Hawaii?"

a) If so, please explain in as much detail as possible, what ICF's position is, and what the entire basis for this position is.

Response:

a) ICF does not believe HRS Chapter 486H as currently drafted appropriately takes into consideration the different classes of trade utilized by various suppliers and the impact the cap could have on the structure of the competitive gasoline market in Hawaii. This is explained in the Report, and ICF has recommended both a Bulk, Rack and DTW channel to have caps applied. The use of a single factor or cap as proposed in the Legislation could result in higher than competitive market Rack prices, and DTW price caps at the same level and no ability for a marketer to recover DTW costs.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO SHELL OIL COMPANY INFORMATION REQUESTS

Docket #05-0002

SHELL-IR-84

"Does ICF have a position on the issue of whether HRS Chapter 486H, as currently drafted, will affect the pricing of gasoline in other States?"

a) If so, please explain in as much detail as possible, what ICF's position is, and what the entire basis for this position is.

Response:

a) ICF has not considered whether HRS Chapter 486H, as currently drafted, will affect the pricing of gasoline in other States. To address the question, ICF believes that the legislation as it is right now, or as ICF proposes it to change, would likely not impact other States. The existence of the Legislation could cause other States to consider similar Legislation, but ICF is not aware of this happening.

Sponsor: Thomas W. O'Connor

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Responses to Information Requests upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

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Kevin M. Katsura

DATED: June 17, 2005